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DEPT FOR EEB/IFD/OMA AND EEB/EPPD.
TREASURY FOR VIMAL ATUKORALA

E.O. 12958: N/A
TAGS: ECON EFIN DA
SUBJECT: DENMARK'S 'DON'T CALL IT A BANK BAILOUT' BANK
BAILOUT PLAN

REF: A. 08 COPENHAGEN 540 (BANK SAFETY NET PACKAGE)
¶B. COPENHAGEN 24 (DANISH ECONOMY TREADS WATER)

¶1. (SBU) Summary. Moving to shore up the Danish banking sector for the second time in less than four months, the Danish government unveiled on January 18 a 100 billion kroner (nearly USD 18 billion) "credit package" plan designed ostensibly to spur increased bank lending and alleviate Denmark's ongoing credit crunch. Under the terms of the plan, under-capitalized banks and mortgage companies can borrow public money on relatively easy terms to pump up their cash reserves and allow more active lending practices. Senior government officials have been at pains to cast the "credit package" as a liquidity injection designed to facilitate credit rather than a bailout of troubled banks, a claim that may be sorely tested in the coming weeks as banks release fourth-quarter 2008 financial statements that are likely to be covered in red ink. While the "credit package" has broad political support (implementing legislation will likely be passed next week) and drew fairly positive reviews from the business sector, some observers claim it did not go far enough and predict that a far more costly economic stimulus package will be needed in the coming months. End Summary.

¶2. (SBU) After weeks of preliminary discussion and several days of direct wrangling with opposition party leaders, Finance Minister Lars Lokke Rasmussen announced January 18 that the government would make available 100 billion Danish kroner (a bit less than USD 18 billion) to Danish financial institutions "so that businesses and citizens do not get caught in a credit squeeze where they cannot obtain loans for viable projects." Under the terms of the government-labeled "credit package" plan, banks can borrow public funds at rates between 9 and 11 percent (roughly the same as current inter-bank lending rates) in order to increase hybrid capital to comply with a Danish government 12 percent hybrid capitalization requirement. According to a press statement released by the government, participating banks and mortgage companies must agree that "the capital is granted with the objective of creating room in the bank's lending to counteract a credit squeeze" and must submit semi-annual public reports on their lending practices.

¶3. (SBU) Finance Minister Rasmussen, heir apparent to the ruling Liberal Party's leadership post and a contender to eventually succeed Anders Fogh Rasmussen as Prime Minister, told the press that the package was supported by all parties and that implementing legislation would be "fast-tracked" for parliamentary approval. A parliamentary legislative staffer told us the bill would likely be enacted next week. The plan marks the second time in the past four months that the Danish government has moved on a Sunday (a rare occurrence, as the Danish work week is 37

and one-half hours and Danes guard their weekends even more zealously than most Americans) to shore up the Danish banking system, and it follows an October 2008 government-labeled "bank safety net" package whereby the government and banks jointly provided unlimited guarantees on all bank deposits (Ref A).

¶4. (SBU) In the weeks leading up to the agreement, Prime Minister Rasmussen and his economic team insisted repeatedly that the package would not be a bank bailout scheme, a point emphasized by the Finance Minister when announcing the agreement, but rather a means to facilitate increased lending to companies and individuals. Financial industry insiders are not convinced, however. Citigroup Denmark Managing Director Mark Luscombe told us he doubts the "credit package" will lead to much if any increased lending, adding that the root of Denmark's current economic woes is not a credit squeeze but rather an under-capitalized financial sector awash with a growing number of non-performing assets. Luscombe, who is also Chairman of the American Chamber of Commerce in Denmark, thought it highly possible that Denmark's experience with the "credit package" will mirror that of the U.S. late last year when a massive infusion of USG funds into troubled American financial institutions led to virtually no change in bank lending practices.

¶5. (SBU) Jan Olsen, a senior executive of Danske Bank, Denmark's largest bank with roughly one-third market share, expressed a similar view, noting that injections of public funds will not prompt banks to change their approach to lending money for which banks and not the government are

ultimately responsible. Both he and Luscombe characterized as political spin the government's dogged insistence that the package is not a bank bailout plan, and predicted that the true nature of the package would become even more apparent in the coming weeks when Denmark's banks release fourth-quarter 2008 financial reports that will likely detail glaring if not catastrophic losses. Other financial observers claim that the "credit package" did not go far enough and that a far more expensive and comprehensive economic stimulus package is all but inevitable in the coming months. For his part, Finance Minister Rasmussen conceded that a stimulus plan may well be needed if Denmark continues to experience an "economic tsunami."
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